

The Webinar will Begin Shortly

Harvesting a Profit: Future Sessions

Harvesting a Profit: What is a Lender Looking For?

- **Monday, November 30, 2015 12:00 - 1:00 PM**
 - This session will discuss how to finance your business and the "Five Cs" of credit your lender looks for. It will include an interview with Keith Stechschulte, Farm Credit East Enfield Branch Manager, who will discuss how to "do your homework" before heading to the bank. The session will conclude with a review of key financial statements and a summary case study.
- Registration at: FarmCreditEast.com/webinars

Harvesting a Profit:

Session II

A guide to growing a financially
sustainable agricultural business



Today's Presenters

Katelyn McCulloch

Business
Consultant

Auburn, Maine

Chris Laughton

Director of
Knowledge Exchange

Enfield, Connecticut

Supporting Organizations:

American Farmland Trust
Beginning Farmer Network of Massachusetts
The Carrot Project
Center for Agricultural Development & Entrepreneurship (CADE)
Community Involved in Sustaining Agriculture (CISA)
Community and Regional Development Institute of Cornell University (CaRDI)
Cornell Small Farm Program
Cornell University Cooperative Extension (CCE)
Farm Fresh Rhode Island
Farmer Veteran Coalition
Glynwood
Land for Good
The Last Green Valley
Maine Farm Bureau
Massachusetts Farm Bureau
National Young Farmers Coalition
The New England Farmers Union
New Entry Sustainable Farming Project
New Hampshire Farm Bureau
New York Farm Bureau
New York Farm Viability Institute
New York FarmNet
Northeast Organic Farming Association of Connecticut (CT NOFA)
Northeast Organic Farming Association of New Jersey (NOFA-NJ)
Northeast Organic Farming Association of Rhode Island (NOFA/RI)
Northeast Sustainable Agriculture Working Group (NESAWG)
Southeastern Massachusetts Agricultural Partnership (SEMAP)
Stone Barns Center for Food and Agriculture
University of Massachusetts Extension

Using Profit Measures Effectively



Today's Lesson: Using Profit Measures Effectively

- Benchmarking Against Ourselves and Competitors
- Setting Goals
- Margin Analysis
- Variable and Fixed Cost Challenges
- Marketing
- SWOT Analysis

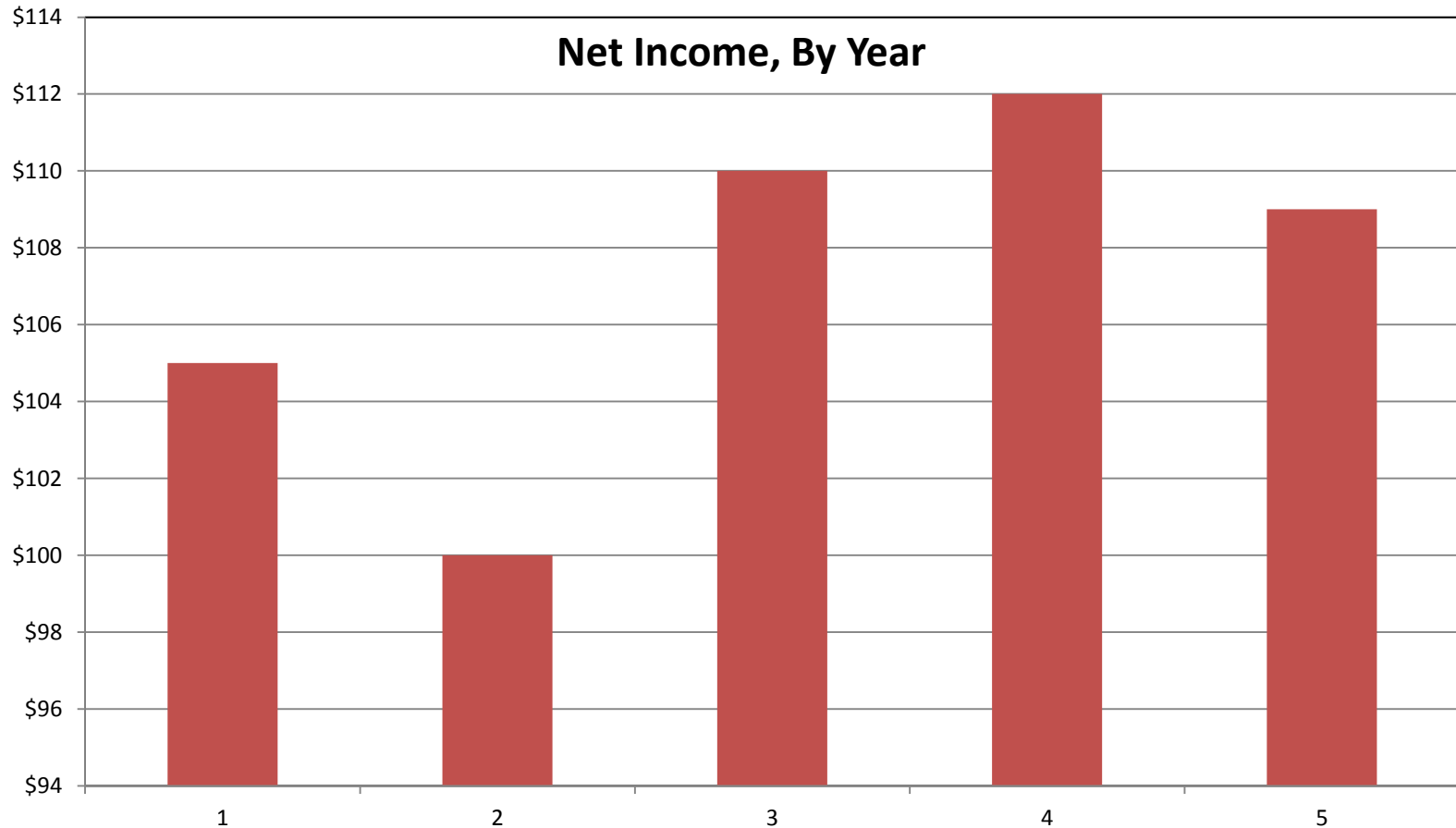
Benchmarking Your Business



- A Method of comparing your business
- To:
 - Yourself – from one time period to the next
 - Peer businesses – in your industry or region
 - Your goals

Benchmarking Your Business

Historical benchmarking pits you against yourself over time



Peer-to-Peer Benchmarking

Farm Credit advocates benchmarking to peers:



Setting S.M.A.R.T. Goals

S SPECIFIC

M MEASURABLE

A ATTAINABLE

R REWARDING

T TIMED

1. Improve production of dairy herd by 2% by end-of-year
2. Consult with nutritionist about ration
3. Monitor progress
4. Measure my production against similar farms

1. Increase plant sales by 10% by June
2. Make 3 extra sales calls every week
3. Track sales weekly
4. Compare sales year-over-year

Competition Yields Various Management Styles

| | Great with Cows | Labor Efficient | Better Milk Price | Tight With a Buck | Balanced |
|---------------------------------|-----------------|-----------------|-------------------|-------------------|----------|
| Milk sold per cow (lbs) | 26,122 | 24,022 | 21,143 | 21,415 | 20,047 |
| Milk sold per worker (lbs) | 966,666 | 1,473,952 | 845,311 | 901,305 | 793,749 |
| Net cost of production per cwt. | 17.68 | 17.66 | 18.34 | 16.58 | 17.75 |
| Milk price per cwt. | 18.90 | 19.31 | 20.56 | 18.81 | 18.94 |
| Net earnings per cow | 913 | 820 | 864 | 1,276 | 829 |
| Net earnings per cwt. | 3.50 | 3.41 | 4.09 | 5.96 | 4.14 |
| Return on assets | 7.5% | 9.1% | 7.4% | 9.8% | 5.7% |
| Percent net worth | 75% | 75% | 73% | 69% | 75% |



Benchmarking Emphasizes Your Resources



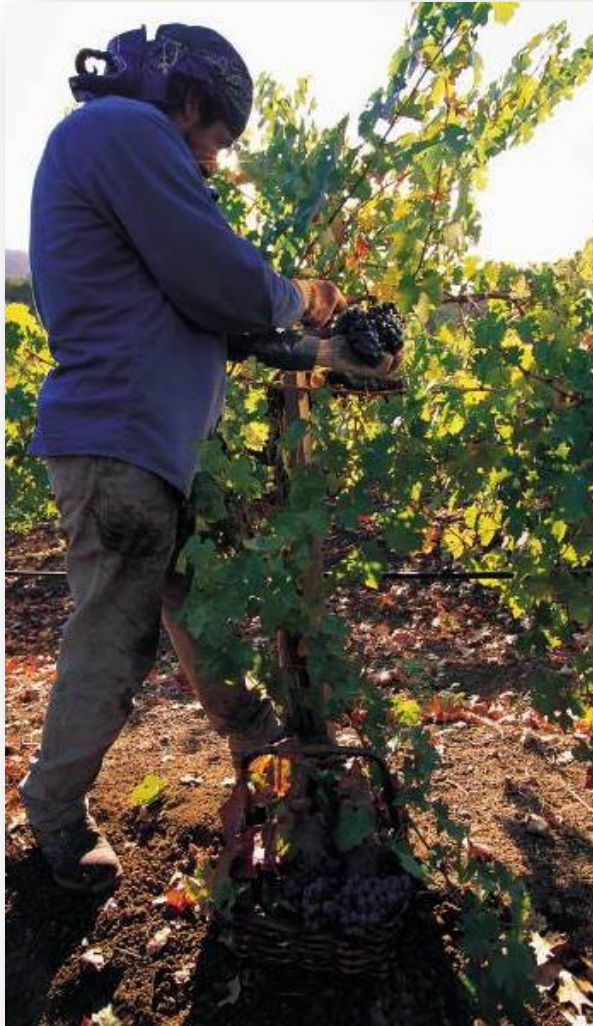
- Match your skills and resources to the right method for you
- No one style is the right style
- *“If it is to be, it is up to me.”*

Business Analysis



- Running a business is about making good decisions and acting on them
- Decisions can only be as good as the *information* you base them on
- Good information is key to running a successful business

COGS are the Major Variable Expenses



- COGS stands for Cost Of Goods Sold, and it is the sum of expenses directly associated with the product being sold
- Examples:
 - Product purchased for resale
 - Direct labor
 - Packaging & labeling
 - Supplies used in production
 - Anything directly tied to making your product

Fixed Costs are your overhead expenses



- These are costs that generally remain the same regardless of variations in your productivity
- Examples:
 - Office staff & supplies
 - Property taxes
 - Insurance
 - Depreciation
 - Anything not directly related to your production

Gross Margin Measures Efficiency

The gross margin is what is left after all product costs are paid. It contributes to overhead and profits.

| | Total | % of Sales | Per Bird | Per Pound |
|---------------|-----------|------------|----------|-----------|
| Gross sales | \$100,000 | 100% | \$40.00 | \$2.00 |
| COGS | \$60,000 | 60% | \$24.00 | \$1.20 |
| Gross margin* | \$40,000 | 40% | \$16.00 | \$0.80 |
| Fixed costs | \$20,000 | 20% | \$8.00 | \$0.40 |
| Net profit** | \$20,000 | 20% | \$8.00 | \$0.40 |

*Gross sales – COGS = Gross margin

**Gross margin – Fixed costs = Net profit



Reasons for Low Gross Margin

- Pricing is too low
- COGS is too high
- Shrink is too high
 - Shrink is any product grown or made (or purchased) but not able to be sold, due to:
 - Lack of demand
 - Poor quality
 - Spoilage
 - Theft
 - Or other factors...

Fixed Costs or Overhead



- Fixed costs do not change with each unit of production. If fixed costs are high:
 - Is your facility too large?
 - Have you “grown into” full capacity?
 - Did you overbuild?
 - Fixed costs are less manageable after they are implemented.

The DIRT-5 of Overhead

D

DEPRECIATION

- Depreciation is the cost of the item spread out over its useful life

I

INTEREST

- Interest is the cost of financing the item

R

REPAIRS

- Repairs are the anticipated maintenance costs of the item

T

TAXES

- Taxes could be property taxes, excise taxes, etc.

I

INSURANCE

- Insurance is the cost of insuring the item

Ways of Measuring Production

- *Cost per*

- Cwt of milk
- Ton of corn silage
- Barrel of cranberries
- Bushel of apples
- Pound of turkey

- *Sales per*

- Customer
- Worker
- Square foot

- *Units of production per*

- Worker
- Square foot
- Acre



Look at Multi-Year Averages for Improved Analysis

- Events can cause variability and skew short-term results
 - Weather globally and locally
 - Government policies
 - Changing economic conditions
 - Variation in export markets
- Multi-year averages remove short-term volatility

Marketing: A New Mindset

- **Production mindset: Make a product, and try to sell it**
 - “Build it and they will come”
- **Marketing mindset: Starts with the consumer.**
 - “Find a need and fill it”
 - Think about what the consumer needs or wants
 - What attributes are valued by the consumer?
 - In particular, look at what products/features earn a premium
 - Design a product to fill that need
 - Work backwards from the consumer’s need to the production system

The 5 “P’s” of Marketing

- **Product**
 - A product that stands out
 - USP: Unique Selling Proposition
 - “Better, Cheaper, or Different” – or you’re a commodity!
- **Price**
 - Commodities = Market Price = Price Taker, not Price Maker
 - Unique products set their prices
 - Must be competitive, reasonable, and fit the consumer’s budget
 - The consumer ultimately determines the price
 - Sometimes you start with a price and work backwards

5 “P’s” Continued

- **Place**
 - Where, When & How your product is sold
 - Supermarket, Farmer’s Market, etc.
 - Wholesale vs. Direct-to-consumer
 - When: early season, in-season, late season
- **Promotion**
 - At a basic level, how will the buyer know you exist??
 - Advertising is part of it, but not the end
 - Packaging, merchandising, sales display
 - For wholesale, in-person contact important
 - Commodity promotion boards and co-ops

5 “P’s”: People

- People
 - Who will you sell to? Do they want or need your product?
 - This guy??



5 “P’s”: People

- ... Or this guy??



Marketing efforts are most effective on people who have the need, desire, and means to buy your product or service

Marketing



- Compare your farm to others when evaluating marketing
- Listen to your customers:
 - Who are your customers?
 - How many customers?
 - Is your product different?
 - Are your prices better?
 - Do you have better quality?

The SWOT Analysis



The SWOT Analysis



Case Study: Orchard

- Imagine you are a new manager that has just taken over an existing orchard.
- The records are fairly well kept and the bookkeeper can provide the level of data discussed in Series 1.
- What should be your first steps to make use of the financial data available?

| 2014 | Orchard Fruit BM |
|--------------------------|------------------|
| Income | % of sales |
| Crops | 91.6% |
| Resale products sold | 1.0% |
| Other farm income | 7.4% |
| Total Income | 100% |
| Variable Expenses | |
| Chemicals and fertilizer | 9.4% |
| Custom Hire | 0.9% |
| Freight and Trucking | 0.9% |
| Fuel | 3.0% |
| Labor expense | 36.8% |
| Seeds and plants | 1.3% |
| Storage | 0.7% |
| Supplies | 9.5% |
| Other expenses | 8.6% |
| Total variable expenses | 71.1% |

Case Study: Orchard

- You have worked with Farm Credit in the past and used their orchard benchmark to evaluate your performance against other orchard fruit growers.
- You can also look at the past history of the orchard and see how the performance has been before you started.
- Let's ask the bookkeeper for five years of historical data.

| 2014 | Orchard Fruit BM | New Orchard |
|--------------------------|------------------|-------------|
| Income | % of sales | |
| Crops | 91.6% | 91% |
| Resale products sold | 1.0% | 3.0% |
| Other farm income | 7.4% | 5% |
| Total Income | 100% | 100% |
| Variable Expenses | | |
| Chemicals and fertilizer | 9.4% | 22% |
| Custom Hire | 0.9% | 1% |
| Freight and Trucking | 0.9% | 3% |
| Fuel | 3.0% | 3% |
| Labor expense | 36.8% | 25% |
| Seeds and plants | 1.3% | 2.0% |
| Storage | 0.7% | 1.3% |
| Supplies | 9.5% | 9% |
| Other expenses | 8.6% | 7.5% |
| Total variable expenses | 71.1% | 73.8% |

Case Study: Orchard

- Comparing year over year on your own records, allows you to analyze trends.
- Looking at a benchmark of your peers allows you to do a SWOT Analysis.
- What are some strengths?
- What are some weaknesses?

| 2014 | Orchard Fruit BM | New Orchard |
|--------------------------|------------------|-------------|
| Income | % of sales | |
| Crops | 91.6% | 91% |
| Resale products sold | 1.0% | 3.0% |
| Other farm income | 7.4% | 5% |
| Total Income | 100% | 100% |
| Variable Expenses | | |
| Chemicals and fertilizer | 9.4% | 22% |
| Custom Hire | 0.9% | 1% |
| Freight and Trucking | 0.9% | 3% |
| Fuel | 3.0% | 3% |
| Labor expense | 36.8% | 25% |
| Seeds and plants | 1.3% | 2.0% |
| Storage | 0.7% | 1.3% |
| Supplies | 9.5% | 9% |
| Other expenses | 8.6% | 7.5% |
| Total variable expenses | 71.1% | 73.8% |

Case Study: Orchard

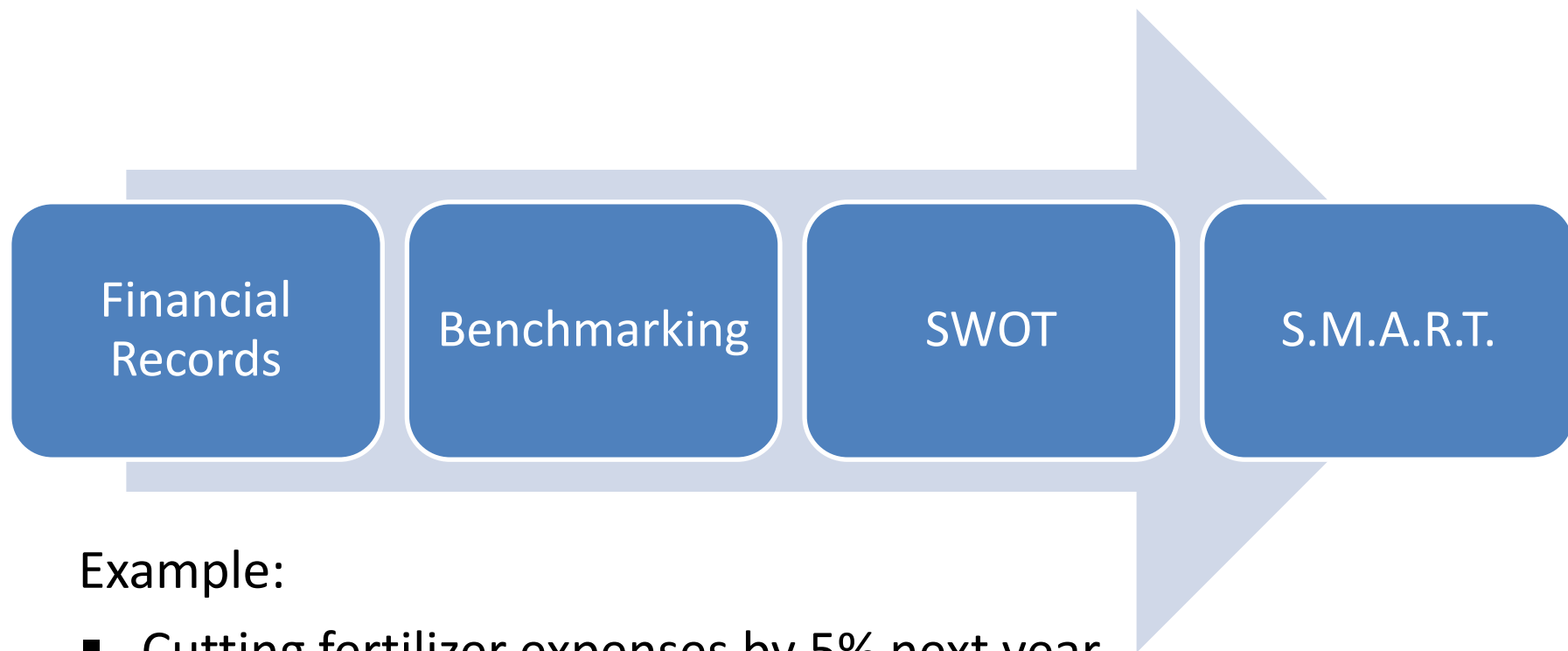
Internal

- Strengths:
 - Labor Expenses
 - Other Expenses
- Weaknesses
 - Chemicals and Fertilizer
 - Freight and Trucking

External

- Opportunities
 - Soil testing
 - Production Expert
- Threats
 - Weather: Frost/Hail
 - Consumer Demand

Case Study: Orchard



Example:

- Cutting fertilizer expenses by 5% next year.
- Buying crop insurance or revenue insurance to mitigate weather related risk to protect \$X of income.

GenerationNext

Management Development for Today's Progressive Businesses

Designed to take your management skills to the next level.

- Ideal for young farmers who have some existing management experience and/or education, and who would like to:
 - Identify areas for personal growth and development
 - Gain tools that you can readily use in business
 - Have the opportunity to network with other young leaders in agriculture
- Three full-day, in-person sessions with a Farm Credit East Consultant
- Offered this fall/winter at selected Farm Credit East offices
- Contact us for more information.



Today We Covered



Today We Covered: Using Profit Measures Effectively

- Benchmarking Against Ourselves and Peers
- Setting “SMART” Goals
- Margin Analysis
- Variable and Fixed Cost Challenges
- Marketing
- SWOT Analysis

Harvesting a Profit: Future Sessions

Harvesting a Profit: What is a Lender Looking For?

- **Monday, November 30, 2015 12:00 - 1:00 PM**
 - This session will discuss how to finance your business and the "Five Cs" of credit your lender looks for. It will include an interview with Keith Stechschulte, Farm Credit East Enfield Branch Manager, who will discuss how to "do your homework" before heading to the bank. The session will conclude with a review of key financial statements and a summary case study.
- Registration at: FarmCreditEast.com/webinars
- Questions/Comments: Chris.Laughton@FarmCreditEast.com